

## Exhibit E



Rabo AgriFinance

## BEEF CATTLE COLLATERAL INSPECTION REPORT

Client Information							
Relationship Name:	McClain Farms, Inc.						
Obligation Number:	22122952	Address:	824 Mullins Lane				
WW-ID:	604357	City State:	Benton, KY				
Sector:	Beef Cattle Ranching	Main Contact:	Brian McClain				
Fiscal Year End:	December	Email:	mcclainfarms@gmail.com				
Bank Information & Inspection Information							
Rabobank LQC:	Good	Report Date:	3/10/23				
R - Rating:	R16	Inspection Date(s):	2/28/23				
RAF Region/Territory:	Northeast	Cutoff Date:	1/31/23				
RAF Office:	Evansville, IL	Prior Inspection Date(s):	4/7/22 and 4/27/22				
MD/BDM-FAM:	Dan Villwock; Jeff Abbey	Lead Inspector:	Michelle Stockett				
RM1 & RM2:	Chip Lawson	Inspection Team:	Sean Johnstone				
FA:	Jason Dunn	Next Internal Review:					
RCO:	Carla Schindler	Next Maturity or Annual Review Date:	8/1/2023				
GM:	JP van Oosten	Frequency:	Annually				
Recommendations		Significant Risks/Concerns noted					
Recommendations Made	Rating	Quantity	Large negative borrowing base after adjustments for cattle. Possible Fraud Case. Recommendation to Downgrade immediately and take control of cattle as soon as possible, due to concerns related to cattle being owned by other parties.				
Informational/Green	1	1					
Technical/Amber	2	0					
Material/Red	3	3					
Total:		4					
Sign off of AFCID Team Lead or Head of AFCID and Viewpoint							
Sign Off:	Date:	3/11/2023	Viewpoint/Opinion				
Maria Contreras			High information risk with adjusted negative BB base margin.				
Facility Information							
RLOC(s):	Facility No.	Maturity Date	RAF Commitment	Total Commitment	Principal Balance	Accrued Interest on Principal (excludes default interest)	Default Interest
Facility 1 RLOC	1	8/1/2023	\$ 54,000,000	\$ 54,000,000	\$ 54,573,418	\$ 929,173	
Borrowing Base Structure:		Type	Frequency				
		Non-Restrictive Borrowing Base (Single Only)	Monthly				
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## **McClain Farms, Inc.**

### **EXECUTIVE SUMMARY**

The Agricultural Field and Collateral Inspection Department (AFCID) was engaged to perform a standard inspection of the collateral to secure the existing loan to McClain Farms, Inc. ("McClain" the "Company" or the "Borrower"). The collateral inspection was completed by a team of inspectors on February 28, 2023, at the Company's headquarters located in Hereford, TX. The primary Company contact was owner Brian McClain. The Inspector spoke with RCO Schindler for account clarity before the inspection. Conversations were also held prior with Sr Chip Lawson as well as in person since Lawson attended the inspection in Texas. A closeout review was held with the Client before leaving the operation to discuss the observations made during the inspection. Regarding the discrepancy with the headcount, Client indicated he had cattle in KY and cattle were on the road to TX. He also mentioned that since feeder cattle prices have become so high recently, his overall numbers would be impacted and would be lower than January numbers on 2/28/23.

While onsite at the 3 locations in Texas, Inspection team including Sr. RM counted 8,916 cattle on hand at the individual yards. Below is the insert showing the discrepancy with numbers from January 31, 2023, to February 28, 2023, as client was not able to provide yardsheets that inspector was able to tieback to January counts:

	<u>2/28/23 counts</u>	<u>1/31/23 BBC</u>
McClain Fdyd - Hereford	2,480	31,668
7M - Friona	4,217	27,043
Tommy's - Friona	2,219	0
McClain Farms - KY (per Brian)	20,000	21,631
	<u>28,916</u>	<u>80,342</u>
Change in Head Count		51,426

Inspector has chosen to only include the cattle she saw and counted in TX (8,916) for the prepared BBC below. This is basically a worst-case scenario. She did request from the Client that she travel to KY on Monday, March 6, 2023, to count cattle there for the cohesiveness of the inspection, but he indicated this would not be possible because he would be in Florida. The other primary concern that Inspection Team has is that cattle at the yards could belong to someone else. Inspector's saw checks deposited into Clients February bank accounts with notations written as payment for "feedbills". This would lead us to believe that these people had cattle on feed with McClain Feedyard and owned the cattle.

The Company is required to prepare a monthly, non-restrictive Borrowing Base Certificates (BBC) for presentation to Rabo AgriFinance (Lender) within 30 days of month end.

The scope included a review of the 1/31/2022 Borrowing Base Certificate (BBC), the current herd and feed inventories, as well as an inspection of the physical operations. Also discussed with the company were the accounts receivables, accounts payable, cash accounts, feed inventory and outstanding check transactions. The Client works with Carr, Riggs and Ingram, LLC CPA in Albuquerque, NM to prepare year ending, reviewed financial statements.

	<u>Borrower</u> <u>Reported</u>	<u>Credit</u> <u>Agreement</u>	<u>Inspection</u>
<b>Gross Eligible Collateral</b>	\$ 113,537,704	\$ 18,854,136	\$ 18,854,136
<b>Net/Margined Eligible Collateral</b>	\$ 85,058,408	\$ 13,692,823	\$ 13,692,823
<b>RLOC Outstanding</b>	\$ 55,502,591	\$ 55,502,591	\$ 55,502,591
<b>Gross Collateral Margin</b>	\$ 58,035,113	\$ (36,648,455)	\$ (36,648,455)
<b>Net/Margined Collateral Margin</b>	\$ 29,555,817	\$ (41,809,768)	\$ (41,809,768)
<b>Loan/Gross Eligible Collateral %</b>	49%	294%	294%
<b>Loan/Net Eligible Collateral %</b>	65%	405%	405%

Borrower Reported: Indicates reporting as provided by the Company to the Lender.

**Credit Agreement:** Adjustments made to Company prepared reporting per requirements of the Credit Agreement. This column highlights the client's compliance with documented terms and conditions.

**Inspection:** Adjustments made to follow standard inspection scopes and industry practice, or where specific risks have been identified. Some adjustments may differ from credit approved terms and/or legally documented terms and are provided for informational purposes only.

Adjustments made during the inspection are as follows:

<b>Borrowing Base Category</b>	<b>Bank Documentation \$ Adjustments</b>	<b>Inspection \$ Adjustments</b>
Cattle Count Adjustment	\$ (93,271,928)	\$ (93,271,928)
Outstanding Checks	\$ (1,161,639)	\$ (1,161,639)
Accounts Payable Adjustment	\$ (250,000)	\$ (250,000)
<b>Totals</b>	<b>\$ (94,683,567)</b>	<b>\$ (94,683,567)</b>

As mentioned earlier, the cattle adjustment is to take cattle from 80,342 to 8,916 as seen on 2/28/23. From yardsheet for January, which was provided by Client, AFCID was unable to verify head counts because nothing tied back to the submitted number. The Client had not included 2 large outstanding checks which resulted in the \$1,161,639 adjustment. In the prior inspection, Client and Inspector had agreed that accounts payable would be deducted in the amount of \$250,000 and Client failed to include this amount on the 1/31/23 BBC.

After interviews with management, the Company appears to no longer have the proper controls in place to properly prepare the BBC for presentation to Rabo AgriFinance. High information risk has been cited in every inspection since the prefunding and Client has always indicated they would improve. At this point, no improvement in processes nor procedures has occurred.

All cattle inventory claimed as owned by the Company and viewed on the date of inspection were valued in this report based on (1) mark-to-market cost to finish basis, (2) Cattle Fax Regional Price or (3) similar publicly reported regional price as appropriate for the operation. All feed inventory claimed were valued in this report based on the lesser of Borrower's cost or market.

Recommendations as of the result of the inspection findings are summarized below as:

- Level I/Green Recommendation
  - Next inspection will be scheduled to occur at the direction of Lender.
- Level III/Red Recommendation
  - Lender should work with Client to properly report outstanding checks
  - Lender should work with Client to properly report all accounts payable.
  - Recommend that Lender hire a forensic accountant to investigate what has happened to the cattle and what has happened to the money if cattle were sold which should have been used to paid down on the RLOC.

I hereby certify that I have personally examined the supporting documentation for the submitted borrowing base. I further certify that I am not related to the Borrower, have no interest in the loan(s) applied for or outstanding, and the foregoing summary and hereinafter is a true report of my findings.

Date Inspection Completed February 28, 2023

*Michelle Stockett*

Michelle Stockett

Sr. AFCID Collateral Inspector

## **OPERATION OVERVIEW**

McClain Farms, Inc. is in Benton, KY and is managed by Brian McClain. The Company exists to act as a backgrounding operation for the Companies cattle prior to shipping them to McClain Feed Yard or 7M Feeders, both of which are related entities. McClain Farms receives lightweight cattle out of Florida and the Southeastern US, backgrounds them and brings them up on feed ensuring healthy cattle that are ready to gain once they arrive at the grow yards in TX. MF takes their role within the entities seriously and are responsible for straightening out large numbers of cattle prior to shipping to TX. Cattle are received in KY at a set of pens reminiscent of a grow yard where they are introduced to feed, bunks, and waterers. This allows a more accessible area to provide increased care for the lightweight, higher risk animals in their first few days. From there, they are turned into small grass traps for a time, before finally being turned out into larger grass pastures to gain weight through forage and supplemental feeding prior to their shipping. Health protocols are progressive and preventative care is preferred to reactive care at all the entities. McClain Feed Yard is in Hereford, TX and 7M Cattle Feeders is in Friona, TX (approximately 25 miles apart); both are managed/owned by Brian McClain, who lives in Benton, KY.

A change in overall model occurred sometime in 2022. Inspector is unable to identify when the change really occurred but suspects it became a larger problem after Friona Industries picked up their cattle in January 2022. From documents received from Client and bank statements received from Mechanics Bank, Inspector can see that movement of cattle has escalated to a larger number than Client can handle. No implementation of better accounting occurred between the inspection in 2022 and the current one in 2023. No CFO was hired. From records received it is concerning enough that Inspection Team is unsure if some of the cattle even existed. In a normal operation of this size (80K head on feed) a client should be able to print out an accurate yardsheet and provide information out of the cattle system for ins, out and deaths which occurred with a month. They should be able to provide closeout information on all cattle which shipped and costs for incoming purchase price with very little trouble. McClain has been unable to do this for the current inspection. Documents received thus far look to be brand new documents printed just to satisfy the Inspector and to match remote deposits. Team has been unable to document what cattle were purchased in January/February for resale. The model change per Client is that he now sells feeder cattle to outside customers and then buys them back. Like his previous arrangement with Friona Industries except he takes the place of Friona in this scenario. While with Client on 2/28/23, he verbally stated he still sells 60% of his cattle to Friona and 40% of his cattle to Cactus. Inspection team could not validate this statement with documentation. We saw some incoming wires from Cactus and a couple of transactions that were brokered by Riley Livestock which might be sales to Friona Industries. All the rest of the transactions for the month of February were to Clients who are supposed to be in KY, except for one large TX Client, who are buying feeder cattle for wheat or grass from McClain. All invoices to these customers were for a 590# heifer which is very difficult to find in the current marketplace and it is questionable that the numbers moved by McClain were actual cattle sales based on documentation received. Inspector saw one invoice for the same cattle (same head counts, same price, same weight) to 2 different customers which would be very unusual to happen.

McClain had an accident in the summer of 2022 which required him to be hospitalized and unable to run his businesses for several months during the summer. His daughter Meghan was in charge while McClain was unable to perform his usual activities due to the injury, and money got away from her because she did not understand how to watch her cash flow in relationship to her RLOC usage. The loan became overdrawn and overline for months at a time. In early 2023, RAF approved a short-term line increase to cover this problem with the stipulation that McClain have the line paid back down to his original limit of \$48,000,000 by April 1, 2023. When asked how McClain would get back down to the \$48 million, he indicated he would continue buying cattle and then the last week of the month prior to the payment being due he would sell \$6,000,000 worth of cattle.

Prior to the inspection, Inspector talked with Sr. RM, and RCO's (Doug Williams and Carla Schindler). All individuals indicated they had concerns about the account and wanted an accurate headcount of what was on hand. Inspector also reached out to try and speak with the accountant assigned to the account from Carr, Riggs and Ingram, LLC located in Albuquerque, NM. Inspector learned that the lady had recently left the firm and when Inspector asked to speak with whoever was handling the account now, she got nowhere. Eventually one of the managers from Carr, Riggs and Ingram called Inspector back and let her know someone had been assigned but he did not give her a name. They did discuss the Reviewed Financials prepared by the firm and how the Review was done. Manager indicated it was not as extensive as audited statements but that questions about the operation would have been asked. In discussions with Client, he indicated they had asked a lot of questions, but he did not give specifics about what questions were asked.

Both McClain Feed Yard and 7M were in good condition at the time of the inspection; they are older yards but have seen upgrades to pen construction and layout and are well suited to their current purpose. Management continues to utilize only the north half of the 7M yard for current. While Inspection team was onsite at Friona, they did see cattle trucks arriving and unloading cattle. Client maintains that 15 trucks arrived on the last day of the month of February which would equate to around approximately 1,000 cattle depending on the weight of the cattle. Client had also shipped cattle the morning of the location out of the "Tommy" yard and Client did not have numbers for the shipments to provide to Inspection Team.

## **FACILITY OVERVIEW**

A review of bank documentation noted no concerns or discrepancies. Approved structures match the advance rates as shown in the approved Facility Sheet. Maximum Amount. The aggregate unpaid principal balance of the Loans must not exceed the lesser of: (i) \$54,000,000.00 or (ii) the Borrowing Base or (iii) that amount specified below:

- (a) From the Closing Date through 3/31/2023: \$54,000,000
- (b) From 4/1/2023 through Maturity date: \$48,000,000

Operating Line of Credit 3 Borrowing Base means the sum of:

- I. 80% of Eligible Accounts receivable; plus
- II. 75% of the Eligible Cattle Value of Eligible Cattle; plus
- III. 80% of the Value of Eligible Cattle Down Payments; plus
- IV. 100% of Eligible Commodity Hedge Accounts; plus
- V. 100% of the Eligible Demand Deposit Accounts; plus
- VI. 75% of the Value of Eligible Feed and Grain Inventory; plus
- VII. 85% of the Eligible Cattle Value of Eligible Hedged Cattle; plus
- VIII. 100% of Eligible Investment in Growing Crops; plus
- IX. 100% of Eligible Packer Accounts Receivables; plus
- X. 75% of Eligible Cattle Value of Eligible Pasture Cattle; plus
- XI. 80% of the Eligible Cattle Value of Eligible Option Protected Cattle; plus
- XII. 80% of Eligible Prepaid Feed and Input Expenses; plus
- XIII. 100% of the Eligible Cattle Value of Eligible Procurement Cattle; minus
- XIV. 100% Related Payables and Liabilities; minus
- XV. 100% Book Overdraft/Outstanding Pending Transactions
- XVI. 100% of Cattle Deposits Received

## **FINDINGS**

### **Commodity Hedge Accounts**

As of 1/31/23, Client reported no hedge account activity. Due to a change last year to the Credit Agreement, Client now puts all cattle at the 75% advance rate and no longer shows contracts for outside buyers. Inspection Team did not request to see the contracts or PO's though Client did maintain he still has some.

**Cattle Inventory**

Description	Category	Head	Value	% Total	Mkt / Unit
Hedged/Contracted	Live Cattle	0	\$0	0%	0
Unhedged	Live Cattle	80,342	\$102,526,736	100%	1,276
Contracted-Opt Protected	Live Cattle	0	\$0	0%	0
Pasture Cattle	Feeders	0	\$0	0%	0
Breeding Livestock	Bulls, Open Cows	0	\$0	0%	0
<b>Total Cattle</b>		<b>80,342</b>	<b>\$102,526,736</b>	<b>100%</b>	<b>1,276</b>

**Ineligible/Adjustments**

Adjustments:	Head	Company Prepared	Bank Terms	Inspection
Cattle count adjusted to 2/28/23	(71,426)	\$ (93,271,928)	\$ (93,271,928)	\$ (93,271,928)
<b>Total Adjustments</b>		<b>(93,271,928)</b>	<b>\$ (93,271,928)</b>	<b>\$ (93,271,928)</b>
<b>Net Eligible Inventory</b>		<b>\$ 9,254,808</b>	<b>\$ 9,254,808</b>	<b>\$ 9,254,808</b>

As of the 1/31/2023 cutoff date, the total cattle inventory consisted of 80,342 head, valued at \$102,526,736. As mentioned earlier in the report, Inspector is only showing the cattle which were counted and seen by the Inspection Team. Client indicated he had 20,000 cattle in Kentucky and more cattle on the road. Later in emails he indicated cattle were also had cutting or penning events. Inspectors did see cattle which are included in the count which had just returned from a penning event. Client has not attempted to give Inspector a head count for cattle which might have been at an event instead of onsite. Inspection Team does have concerns related to all cattle seen being owned by the Client or being part of deal between Client and a customer. In reviewing the bank statements for February, Inspector saw checks deposited from Don Jones that had "payment on account for feed" written on them which could mean that Mr. Jones has some ownership interest in cattle somewhere. Client verbally said to Inspection Team that no customer cattle were in the yards at this time, but when asked by email, he recanted and said that any customer cattle were at a penning/cutting event or on the road to TX.

Shown below is a breakdown of the money flow between Client and the large customer in Texas who bought cattle:

billed to	wire date	hd cnt	wire amount	difference between check to		check amount	check date	check number	name written to
				wire					
Bo Robinson	2/1/2023	1,506	\$ 1,449,531.62	\$ 38,044.90	\$	1,487,576.52	2/1/2023	4700	2B Farms
Bo Robinson	2/2/2023	1,511	\$ 1,455,713.30	\$ 36,394.52	\$	1,492,107.82	2/2/2023	4701	2B Farms
Bo Robinson	2/3/2023	1,773	\$ 1,711,129.61	\$ 50,885.81	\$	1,762,015.42	2/3/2023	4702	2B Farms
Bo Robinson	2/7/2023	2,671	\$ 2,567,485.55	\$ 70,640.86	\$	2,638,126.41	2/7/2023	4812	2B Farms written out of McClain Feedyard account
Bo Robinson	2/8/2023	2,587	\$ 2,483,397.26	\$ 65,228.97	\$	2,548,626.23	2/8/2023	4813	2B Farms written out of McClain Feedyard account
Bo Robinson	2/9/2023	2,550	\$ 2,466,389.42	\$ 64,196.17	\$	2,530,585.59	2/9/2023	4957	2B Farms
Bo Robinson	2/10/2023	2,565	\$ 2,476,055.65	\$ 66,992.26	\$	2,543,047.91	2/10/2023	4958	2B Farms
Bo Robinson	2/13/2023	2,568	\$ 2,488,153.48	\$ 66,230.07	\$	2,554,383.55	2/13/2023	4959	2B Farms
Bo Robinson	2/14/2023	2,551	\$ 2,476,408.84	\$ 64,410.88	\$	2,540,819.72	2/14/2023	4960	2B Farms
Bo Robinson	2/15/2023	2,391	\$ 2,470,946.70	\$ 64,985.94	\$	2,535,932.64	2/15/2023	4961	2B Farms
Bo Robinson	2/16/2023	1,524	\$ 1,469,317.32	\$ 37,177.51	\$	1,506,494.83	2/16/2023	4962	2B Farms
Bo Robinson	2/17/2023	3,888	\$ 3,760,119.53	\$ 97,037.49	\$	3,857,157.02	2/17/2023	#4963	2B Farms
Bo Robinson	2/21/2023	2,569	\$ 2,498,739.31	\$ 67,370.31	\$	2,566,109.62	2/21/2023	#4964	2B Farms
Bo Robinson	2/22/2023	2,544	\$ 2,462,946.82	\$ 63,672.75	\$	2,526,619.57	2/22/2023	#4965	2B Farms
Bo Robinson	2/23/2023	2,564	\$ 2,495,962.99	\$ 65,102.98	\$	2,561,065.97	2/23/2023	#4966	2B Farms
Bo Robinson	2/24/2023	2,530	\$ 2,472,932.73	\$ 63,494.81	\$	2,536,427.54	2/24/2023	#4967	2B Farms
Bo Robinson	2/27/2023	2,535	\$ 2,490,851.63	\$ 65,953.78	\$	2,556,805.41	2/27/2023	#4968	2B Farms
hd sold      wired in      difference      check w ritten out      checks written out									
		40,827	\$ 39,696,081.76	\$ 1,047,820.01	\$	35,557,149.13	5,186,752.64		
			wires from Bo into		checks to 2B from		checks to 2B from		
			McClain Fdyd		McClain Farms		McClain Fdyd		

Comments regarding this chart from the Inspection Team would be that 1) Texas has had some rain, but not enough to sustain that amount of cattle on wheat for any length of time 2) all cattle bought were 590# heifers which would have been difficult to buy in current market conditions and 3) why the difference in what was wired in and checks written out? Inspector does understand that McClain's business model is moving cattle and making deals, but in the case of Bo Robinson, he is not a Client that McClain mentioned as a "deal" client when Inspection Team was onsite. Typically in these types of deals, you do not see a customer price the cattle back on the same day they are bought. In the case where McClain has sold cattle to Robinson and is buying back cattle which have been on pasture for a period of time, there are still questions about



the number of cattle in the transaction and no documentation was provided for where the cattle sold to Robinson were originally purchased. Inspection Team has not been able to verify any headcounts related to cattle purchased in January or February by McClain. Checks which were written for cattle purchases have minimal to no headcounts or weights written on them and no settlement sheets or bill of lading documents were provided from order buyers, truckers or sale barns to verify purchases.

### **Feed and Grain Inventory**

<b><i>Inventory Description</i></b>	<b><i>Unit</i></b>	<b><i>Quantity</i></b>	<b><i>\$/Unit</i></b>	<b><i>\$ Value</i></b>
Grains	ton	1,149	\$ 172.97	\$198,746
Hay	ton	279	\$ 155.00	\$43,245
Ingredients	ton	242	\$ 246.88	\$59,745
Silage	ton	19,661	\$ 66.46	\$1,306,663
Medicine	per unit	-	\$ -	\$0.00
<b>Total Inventory</b>				<b>\$1,608,399</b>

Feed inventory as submitted totaled \$1,608,399 and is made up of old and new silages stored in pits (bags in KY) along with ground alfalfa, wet distillers' grain, ground/flaked corn, and a supplement.

Commodities are purchased and paid for by invoice, via ACH. Inspector saw this within the bank statements. Inspection Team did run scenarios related to the feed on hand and calculated that with only the feed submitted on the BBC, Client does not have enough silage to feed cattle in the numbers he submitted for more than 90 days, probably no more than 45-60, if the cattle numbers are actual.

### **Accounts Receivable (A/R)**

As of the 1/31/23 cutoff date, the Client submitted \$12,227,560 accounts receivable primarily for cattle sales. Client also included \$600,650 as "payment for feedbills". Inspector presents the transactions in the following insert:

<b><i>Accounts Receivable</i></b>	<b><i>\$ Amount</i></b>	<b><i>%</i></b>
Packer A/R	0	0%
Feed A/R	0	0%
Misc A/R	\$ 12,227,560	100%
<b>Total</b>	<b>\$ 12,227,560</b>	<b>100%</b>

Below is an insert of who the customers were for A/R due at the end of January:

RILEY LIVESTOCK	\$	267,688.85	cattle
JIMMY GREER	\$	355,904.57	cattle
MYKEL TIDWELL	\$	1,002,475.16	cattle
MEAGAN GOAD	\$	17,876.43	cattle
TGF RANCH	\$	303,220.38	cattle
RICK RODGERS	\$	11,291.96	cattle
JOHN TIDWELL	\$	345,650.99	cattle
PRIEST VICTORY	\$	244,550.78	cattle & feed
ERIC DEJARNATT	\$	65,431.93	cattle
SCOTT LIVESTOCK	\$	707,671.16	cattle
DON JONES	\$	1,558,524.52	cattle & feed
MAP ENTERPRISES	\$	2,426,795.71	cattle
WILDForest CATTLE	\$	4,920,477.33	cattle
	\$	12,227,559.77	Total A/R

### **Packer Accounts Receivable**

No Packer A/R reported as of 1/31/2023. Inspector could see a couple of wire's received from Keeling Cattle Feeders which would have been for fat cattle sales. Client does not show any headcount at Keeling Cattle Feeders nor has any feedbill due been shown ever on the submitted BBC. Inspector was aware when Client was doing business growing

cattle for Friona Industries that occasionally Client would take all his cuts from the deal and feed them at Keeling. She understood that the numbers were small, and the checks wired in would prove that theory correct.

#### **Prepaid Feed and Input Expenses**

As of the cutoff date, the Client submitted \$0 in pre-paid expenses.

#### **Demand Deposit Accounts/Book Overdraft/Outstanding Pending Transactions**

Company	Bank	Type	Reconciled Statement Detail	Submitted Number	AFCID Number	Difference
7M Cattle Feeders	Mechanics	sw eep		(164,512)	(164,512)	0
McClain Feedyard	Mechanics	sw eep		(20,120)	(20,120)	0
McClain Farms	Mechanics	sw eep		(2,640,359)	(3,986,630)	
<b>Total</b>			<b>0</b>	<b>(2,824,991)</b>	<b>(4,171,262)</b>	<b>(1,161,639)</b>

Cash accounts as submitted totaled (\$2,824,991). The Client uses Mechanics Bank checking accounts and reconciles outstanding transactions using QuickBooks. The Client provided the month end Mechanics account statements along with their reconciliation report to validate all transactions were not properly recorded. Accountant had not picked up 2 large outstanding checks which cleared in the month of February. Inspector made the adjustment to correct the balances. It should be noted that Inspector can see within the bank statements that checks to individuals are being written in sequential order and have several different styles of handwriting. Most all checks are signed by Megan Goad who is the daughter of Brian McClain. Inspector questions if anyone from McClain is filling out the checks or if they are being filled out by someone on the other end. Inspector has been aware that signed checks are kept in a safe at the Friona and Hereford locations to be used by employees for payroll and local expenses. Inspector has cautioned McClain that this is a very poor process, but it appears to be still being used by the various handwritten checks with many different writing styles.

#### **Related Payables and Liabilities**

It was agreed at the last inspection that Client would include \$250,000 for a plugged number on accounts payable. For January 31, 2023, Client did not include any number for A/P. Inspector made the adjustment to show the \$250K.

#### **Loan Balance**

The outstanding loan balance and accrued interest was submitted correctly, validated with bank documentation.

#### **Environmental Observations**

The Client did provide all permit information regarding his various cattle feeding operations. No environmental concerns were noted during the inspection.



## **RECOMMENDATION RESPONSE**

Recommendations are defined in this report as either: (Green-Level 1) for information only and no specific action needs to take place, (Amber Level 2) CRT will need to present to Credit the resolution of the recommendation by next scheduled internal review (LSR, semi-annual review or annual review), or (Red Level 3) CRT will need to present to Credit the resolution of the recommendation within 45 days of the inspection report being issued. Recommendations will be entered into N-Cino, with a monthly report of outstanding recommendations sent to Credit by Head of AFCID.

## **RECOMMENDATIONS**

### **1. Recommendation (Inspection Frequency): Individual Area of Concern**

**Action:** Next inspection will be scheduled to occur at the direction of Lender.

### **2. Recommendation (Outstanding Checks): Individual Area of Concern**

**Action:** Lender to work with Client to properly report outstanding checks.

### **3. Recommendation (Accounts Payable): Individual Area of Concern**

**Action:** Lender should work with Client to properly report all accounts payable.

### **4. Recommendation (Cattle Inventory): Individual Area of Concern**

**Action:** Recommend Lender investigate hiring a forensic accountant to see what has happened to the cattle headcount. Also, to find out what has happened to the money from cattle sales which should have paid down the RLOC.

## **APPENDIX**

Attachment 1 – Borrowing Base Summary

McClain Farms, Inc.								Attachment 1
1/31/2023								
BORROWING BASE SUMMARY								
1/31/2023								
		Gross Collateral				Loanable Collateral		
Description	Borrower Reported	Credit Agmt.	Inspection		Borrower Reported	Credit Agmt.	Inspection	
Eligible Cattle - Hedged/ Contracted	\$0	\$0	\$0	85%	\$0	\$0	\$0	
Eligible Cattle - Unhedged	\$102,526,736	9,254,808.00	\$9,254,808	75%	\$76,895,052	\$6,941,106	\$6,941,106	
Eligible Cattle - Option Protected	\$0	\$0	\$0	80%	\$0	\$0	\$0	
Eligible Cattle - Pasture	\$0	\$0	\$0	75%	\$0	\$0	\$0	
Eligible Cattle - Breeding Livestock	\$0	\$0	\$0	75%	\$0	\$0	\$0	
Total Livestock	\$102,526,736	\$9,254,808	\$9,254,808		\$76,895,052	\$6,941,106	\$6,941,106	
A/R (less than 30 days)	\$12,227,560	\$12,227,560	\$12,227,560	80%	\$9,782,048	\$9,782,048	\$9,782,048	
Payments in Transit/ Packer Receivables	\$0	\$0	\$0	100%	\$0	\$0	\$0	
Other Eligible Inventory	\$0	\$0	\$0	75%	\$0	\$0	\$0	
Feed & Grain Inventory	\$1,608,399	\$1,608,399	\$1,608,399	75%	\$1,206,299	\$1,206,299	\$1,206,299	
Customer Notes Receivable - Cattle and Feed	\$0	\$0	\$0	100%	\$0	\$0	\$0	
Customer Notes Receivable - Feed Only	\$0	\$0	\$0	100%	\$0	\$0	\$0	
Prepaid Feed & Input Expenses	\$0	\$0	\$0	75%	\$0	\$0	\$0	
Investment in Grow ing Crops	\$0	\$0	\$0	70%	\$0	\$0	\$0	
Commodity Account	\$0	\$0	\$0	100%	\$0	\$0	\$0	
Bank Book Balance/Overdrafts	(\$2,824,991)	(\$3,986,630)	(\$3,986,630)	100%	(\$2,824,991)	(\$3,986,630)	(\$3,986,630)	
Accounts Payable	\$0	(\$250,000)	(\$250,000)	100%	\$0	(\$250,000)	(\$250,000)	
Eligible Assets	\$113,537,704	\$18,854,136	\$18,854,136		\$85,058,408	\$13,692,823	\$13,692,823	
Loans Outstanding	\$55,502,591	\$55,502,591	\$55,502,591		\$55,502,591	\$55,502,591	\$55,502,591	
Required Minimum Net Collateral	\$0	\$0	\$0		\$0	\$0	\$0	
Net Collateral	\$58,035,113	(\$36,648,455)	(\$36,648,455)		\$29,555,817	(\$41,809,768)	(\$41,809,768)	